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IN THE

United States Supreme Court

October Term, 1949

No. 455

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,

Petitioner,

vs.

HAZELTINE RESEARCH, INC.,

Respondent.

BRIEF FOR PETITIONER

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BRIEF FOR PETITIONER.

Opinions of the Courts Below.

The opinion of the District Court appears at R. 296 and is reported at 77 Fed. Supp. 493.

The opinion of the Court of Appeals appears at R. 313 and is reported at 176 F. (2d) 799.

Statement of Jurisdiction.

This Court is believed to have jurisdiction to review the judgment below under the provisions of 28 U. S. C. 1254 and 2101(c). The judgment below was entered August 22, 1949 (R. 330). Certiorari was granted by this Court on January 16, 1950 (R. 330).

Statement of the Case.

1. The Court below, Judge Woodbury dissenting (R. 329), affirmed an interlocutory judgment (R. 293) granted on motion for summary judgment (R. 76), ordering royalty payments, an accounting, and an injunction against future breach of a patent license agreement for the manufacture and sale of radio receivers under a pool of 570 patents and 200 patent applications (R. 79) controlled by respondent.

2. Respondent is a successor in interest to all of the patent rights previously held by its parent, Hazeltine Corporation. Respondent and its associated companies, all of which are under common ownership, will be referred to collectively as "Hazeltine", as was done by Judge Ford in his opinion (R. 297) and by the Court below (R. 314). Petitioner will be referred to as "Automatic Radio".

3. Hazeltine's affidavits in support of its motion for summary judgment asserted that four of its patents were used by Automatic Radio (R. 119-168). This was disputed (R. 188, 195, 207-246), raising a substantial issue of fact which precluded recovery on summary judgment for the use of patents (Rule 56(c) F. R. C. P.). Summary judgment was nevertheless granted because Hazeltine's "standard" licenses require the payment of royalties on all radio sets made, even though none of its patents is used in any of them (R. 299-300). (The complaint does not charge that any of Hazeltine's patents is being used by Automatic Radio.) The enforcement of royalties for structures outside the scope of the patents is asserted by Automatic Radio to be a misuse of pooled patents which precludes a recovery. This is the specific ground on which Judge Woodbury dissented from the decision below (R. 329-330).

4. Hazeltine attempts to restrict the use to which radio receivers may be put, after purchase from its licensees by the public through retail stores, by requiring the following restrictive use notice to be placed on every set (R. 14; Art. VI, Sec. 2). This is asserted by Automatic Radio to be another misuse of patents precluding a recovery:

> "'Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use, under one or more of the following patents and under pending applications:' followed by the word 'Patent' and the numbers of the patents which are, in the opinion of Licensor, involved in apparatus of the types licensed hereunder manufactured by one or more licensees of Licensor."

5. Automatic Radio denies that it is using in its sets any valid patent controlled by Hazeltine (R. 46, 188, 195), and asserts the right to challenge the validity of any patent Hazeltine asserts it is using, in defense of a suit for royalties under the pool of patents.

6. Hazeltine has been operating as a patent holding company for approximately 25 years. In about 1923, Professor Hazeltine of the Stevens Institute of Technology invented the "Neutrodyne" circuit for radio receivers for which he was granted three United States patents, Nos. 1,450,080, 1,489,228 and 1,533,858 (R. 172). Hazeltine Corporation was organized to exploit these patents. All three patents have been held valid and infringed by the Courts:

Hazeltine v. *Electric Service Engineering Corp.*, 18 F. (2d) 662 (S. D. N. Y., 1926);

Hazeltine v. *A. H. Grebe*, 21 F. (2d) 643 (E. D. N. Y., 1927);

Hazeltine v. *National Carbon*, 6 U. S. P. Q. 235 (E. D. N. Y., 1930); affirmed, 47 F. (2d) 573 (C. C. A. 2, 1931);

Hazeltine v. *Radio Corporation of America*, 52 F. (2d) 504 (S. D. N. Y., 1931); affirmed, 59 F. (2d) 203 (C. C. A. 2, 1932);

Hazeltine v. *Wildermuth*, 34 F. (2d) 635 (C. C. A. 2, 1929), cert. den. 280 U. S. 610.

7. Millions of dollars were collected in royalties by Hazeltine on these three patents (R. 173) all of which have now long since expired and all of which were rendered obsolete in 1927 by the screen grid tube (R. 173).

8. Before and since 1927 Hazeltine acquired patent rights from other companies and individuals, forming a vast pool of radio patents owned by it or under which it has licensing rights, which now include some 570 patents and 200 patent applications (R. 79). Most of these are listed at R. 20-38 and 93-101, with the names of the owners in most cases.

9. Hazeltine has continuously collected royalties from a large segment of the radio industry since the introduction of the Neutrodyne circuit in about 1924. It currently has 130 radio manufacturing companies as licensees (R. 79). These royalties have amounted to many additional millions of dollars since the Neutrodyne patents became obsolete (R. 174; R. 79-80; R. 249).

10. Hazeltine has, however, spent only a very small percentage of the money it has received as royalties, for research on radio receivers (R. 173(h); 248), with the result that none of its patents has any value. Every finally adjudicated patent on which it has sued since the Neutrodyne patents has been held invalid, or not infringed; or both (R. 179). These patents, and the citations, are:

a. Patent No. 1,648,808 was held invalid in *Hazeltine* v. *Radio Corporation of America*, 52 F. (2d) 504 (S. D. N. Y.,

1931); invalid and not infringed in *Hazeltine* v. *Sears Roebuck*, 5 F. Supp. 674 (S. D. N. Y., 1933); and invalid on appeal, 79 F. (2d) 238 (C. C. A. 2, 1935).

b. Patents Nos. 1,755,114 and 1,755,115 were held not infringed in *Hazeltine* v. *Sears Roebuck*, 5 F. Supp. 674 (S. D. N. Y., 1933); and invalid and not infringed on appeal, 79 F. (2d) 238 (C. C. A. 2, 1935).

c. Patent No. 1,879,863 was held invalid in *Hazeltine* v. *Abrams*, 7 F. Supp. 908 (E. D. N. Y., 1934) and invalid on appeal, 79 F. (2d) 329 (C. C. A. 2, 1935); and not infringed in *Hazeltine* v. *R. E. B. Service Corp.*, 8 F. Supp. 100 (E. D. N. Y., 1934). The reissue thereof, Re. 19,744, was held valid and infringed in *Detrola* v. *Hazeltine*, 117 F. (2d) 238 (C. C. A. 6, 1940), which was reversed for invalidity at 313 U. S. 259.

d. Patents Nos. 1,913,604 and 2,022,514 were held not infringed in *Hazeltine* v. *Crosley*, 39 F. Supp. 775 (S. D. Ohio, W. D., 1941); affirmed, 130 F. (2d) 344 (C. C. A. 6, 1942).

e. Patent No. 2,111,483 was held invalid and not infringed in *Hazeltine* v. *General Motors*, 38 F. Supp. 880 (D. Del., 1941) and invalid on appeal, 131 F. (2d) 34 (C. C. A. 3, 1942).

f. Patent No. 1,710,035 was held not infringed in *Hazeltine* v. *Emerson*, 129 F. (2d) 580 (C. C. A. 2, 1942).

g. Patents Nos. 1,951,685 and 2,041,273 were held invalid in *Hazeltine* v. *General Motors*, 72 F. Supp. 138 (E. D. Mich., 1947); affirmed at 170 F. (2d) 6 (C. A. 6, 1949), second petition for rehearing denied, 171 F. (2d) 680 (C. A. 6, 1948), certiorari denied 336 U. S. 938.

11. Hazeltine has kept its licensees in line by a succession of suits against non-licensees and their dealers (R. 188-189). It actually sued 26 Atwater-Kent dealers simultaneously (34 F. (2d) 50). Despite these suits some large companies, who could afford to defend suits of this magnitude, have refused to take a Hazeltine license or pay tribute to Hazeltine for many years, going back to 1927 (R. 79; R. 178-179; R. 249-251).

12. The 10 worthless post-Neutrodyne patents listed above in No. 10 are admittedly the best patents Hazeltine owns. It has been able to continue to levy tribute from the radio industry without a single valid patent to warrant royalty payments, only because on each trial Hazeltine has spent more than $100,000, thus keeping each licensee in perpetual fear of a suit of this magnitude directed against it, if it failed to renew its license.

Mr. Woodworth's affidavit at R. 188 quotes the following statement of Mr. Laurence B. Dodds, Executive Vice-President and trial attorney of Hazeltine, made in open court in 1947 at the trial of patents 1,951,685 and 2,041,273 in the cases of *Hazeltine Corporation* v. *General Motors Corporation* in Michigan, Civil Action Nos. 2426 and 2436 (reported at 72 F. Supp. 138), from the stenographic transcript of the trial of those cases at pages 1167 and 1169 (R. 188-189):

> "Now, contrary to your Honor's impression, it is not the weak patents which get to the court, it is the strong patents, and the reason for that is economics. We cannot afford, because it is economically unsound, to bring an infringement action on a minor patent. Each of these patents which has been stricken down enjoyed the prima facie validity of a grant by the Patent Office. Each was evaluated by our patent counsel highly enough to risk an expensive infringe-

ment litigation, which we have found runs in excess of $100,000 per case . . .

. . . . . .

"Now, it has been testified that we own about 450 patents. Of these somewhat less than 100 are in use, and of those only a handful are of the importance of the patents which we have here in suit."

13. The patents involved in that suit were in their turn held invalid (72 F. Supp. 138; affirmed 170 F. (2d) 6; second petition for rehearing denied, 171 F. (2d) 680; certiorari denied, 336 U. S. 938).

14. Because of the admitted pathetic weakness of its patent position, Hazelting, by its own assertions (Binns, Hazeltine's president, R. 81, (f)), in 1937 abandoned any attempt to collect royalties for the use of its patents. Instead it has provided in its "standard" license contracts since 1937 for the payment of royalties on *all* sets made by its licensees *regardless of patents*. (Judge FORD's opinion, R. 299; Hazeltine's motion for summary judgment, R. 76, paragraph (b); license agreement, R. 9, Article IV, Section 1; Binns, R. 81-82(f); opinion of Court below, R. 319-320; dissenting opinion of Judge WOODBURY, R. 329-330). The royalties demanded in this action on Hazeltine's worthless patents amount to 25% of Automatic Radio's net profits for the years 1946 and 1947 (R. 178).

15. As of September 1, 1942, Hazeltine issued to Automatic Radio the license here in issue, under all the patents and patent applications in its pool, settling previous differences between them (Binns, R. 83), and exchanging mutual releases (R. 42). The license agreement is printed at R. 5.

16. The previous differences also involved the payment of royalties on Hazeltine's worthless patents. Hazeltine

had previously sued for royalties in the Superior Court for Suffolk County, Massachusetts. The considered advice of Automatic Radio's patent counsel at that time was that it was not using any Hazeltine patent in its sets (R. 202). Nevertheless Automatic Radio, being financially unable to defend the suit (R. 202), a final decree was entered therein on December 3, 1941 (R. 113) which decreed that Automatic Radio admitted that all of Hazeltine's patents were valid for their entire terms (R. 116). An action is now pending to reopen and set aside that decree as in violation of public policy (*Pope* v. *Gormully*, 144 U. S. 224 (1892); *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 670 (1944)) and void (*Windsor* v. *McVeigh*, 93 U. S. 274 (1876)).

17. In support of Hazeltine's motion for summary judgment, Wheeler's affidavit asserted the use by Automatic Radio of only four of its patents, namely Wheeler patents Nos. 1,951,685, 2,041,273, 1,958,027 and 2,015,327 (Wheeler, R. 119-168). This was denied by Automatic Radio (R. 193, par. 12; R. 188, 7(a); R. 207-246). The first two of these patents have since been invalidated in the *General Motors* case, 72 F. Supp. 138, affirmed at 170 F. (2d) 6, second petition for rehearing denied, 171 F. (2d) 680, certiorari denied, 336 U. S. 938. The latter two patents named cover only tubes, as to which Automatic Radio is already licensed because it purchases its tubes from R. C. A. (R. 196). R. C. A. is licensed by Hazeltine to sell these tubes (R. 196; 289-291).

Specification of Errors—Questions Presented.

Petitioner urges that the Court below erred in refusing to answer the First, Fourth and Fifth questions presented in the affirmative and the Second and Third questions in the negative.

The questions presented are as follows:

1. Is it a misuse of patents by the administrator of a pool of 570 patents and 200 patent applications in the radio art; to force the radio industry and the public, by means of its "standard" licenses outstanding to 130 radio manufacturers, to pay royalties on the entire production of its licensees, amounting to tens of millions of radio sets, even though none of the patents is used? This question should be answered yes.

2. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor? This question should be answered no.

3. Can a patent owner, merely by a "license notice" attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device? This question should be answered no.

4. Is it a misuse of patents by the administrator of a pool of 570 patents and 200 patent applications to require its licensees to place restrictive use notices on millions of radio sets sold to the public across the counters of retail stores? This question should be answered yes.

5. May a licensee, sued for royalties under a pool of 570 patents, challenge the validity of the patents he is charged with using, in defense of the suit? This question should be answered yes.

Summary of Argument.

POINT 1: The provisions of the Hazeltine patent license agreement requiring the licensee to pay royalty on its gross production of radio sets, whether unpatented or patented, constitute a misuse of patents, as an attempted extension of the patent monopoly to control unpatented goods. Any extension of the patent monopoly to control unpatented goods is a misuse of patents. This is true whether control is attempted by tying in the purchase of unpatented goods for use with patented machines or processes; or by prohibiting the production or sale of unpatented goods; or by tying in the purchase of one monopoly right as a condition for another; or, as here, by exacting royalty on unpatented goods, which effectively imposes a private tax on, and reduces competition in, such unpatented goods. Such attempted control over unpatented goods is of the same type as has been consistently condemned by this Court.

POINT 2: The attempted restriction by the Hazeltine license agreement, upon the purchaser of patented or unpatented goods in the ordinary channels of trade from a Hazeltine licensee, as to the fields of use to which such a purchaser may put these goods, is unlawful under the decisions of this Court. This Court has held that patent owners may not control the time of use, or place of use, or resale price, of patented goods, or require the use of unpatented goods with patented goods, after sale thereof by the patent owner or his licensee, and that a "license notice" attached to such goods to accomplish such a restriction of use, may not be enforced.

POINT 3: The requirement in the Hazeltine license that the licensee shall place, upon all patented or unpatented goods sold by him to purchasers in the ordinary course of

trade, a license notice restricting the uses to which such purchaser may put these goods, is a misuse of patents, rendering them unenforceable here.

Point 4: The misuses of patents just referred to permit Automatic Radio, as licensee of Hazeltine, to challenge in the present suit the validity of the Hazeltine patents which it is charged with using. Furthermore, even apart from such misuse, Automatic Radio may challenge the validity of such patents, since Hazeltine has pooled 770 patents and patent applications owned by itself and others, not for the purpose of use, but to exact tribute from the industry and the public.

ARGUMENT.

POINT I.

(First Question Presented)

It is a misuse of patents by the administrator of a pool of 570 patents and 200 patent applications in the radio art, to force the radio industry and the public, by means of "standard" licenses outstanding to 130 radio manufacturers, to pay royalties on the entire production of its licensees, amounting to tens of millions of radio sets, even though none of the patents is used.

This suit is an attempt, by means of patents, to tax standard articles of commerce which are entirely free from any of the patents, under the guise of a "convenient" method of determining royalty for the use of the patents.

This is but the newest phase of the apparently unending effort of patent holders to extend their patent monopoly beyond its lawful scope by tying in control over unpatented

goods. For more than thirty years this Court has stricken down every such attempt and consistently held that the monopoly which may be exercised is restricted to the monopoly granted.

Such prior attempts have been directed toward (a) requiring the purchase of unpatented goods from the patentee for use with patented apparatus or processes, (b) prohibiting the purchaser or lessee of patented apparatus or the licensee under patents from producing or selling unpatented competing goods or (c) conditioning a license under one monopoly grant upon accepting another and different license ("block-booking").

The direct applicability to the present situation of each of these proscribed modes of control over unpatented goods will be shown below.

A. Analysis of the Cases Establishing the Rule by This Court That a Patent May Not Be Privately Enlarged by Exercising Control Over Goods Which Are Outside the Patent Monopoly.

1. *Cases Tying in the Purchase of Unpatented Supplies or Parts.*

In *Henry* v. *A. B. Dick Co.*, 224 U. S. 1 (1912) this Court, by a four to three decision, held effective a notice attached to a patented device requiring that only the patentee's unpatented supplies be used therewith, and ruled that a violation of that condition was an infringement of the patent. That conclusion was arrived at by reasoning that if a patentee, by virtue of his patent, could reserve *all* uses of his patented device, he surely could restrict some uses. The fallacy in that argument was of course that it failed to recognize that rights with respect to the *entire*

device, collectively, are not necessarily rights with respect to any isolated part.

The entire question was soon re-examined, and the *Dick* case was expressly overruled in the case of *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917). There the manufacturer of a patented motion picture projector sought, by virtue of a license notice thereof, to limit its use, by the purchaser, to films supplied by the patent owner. This Court held (p. 516)

> "* * * it is not competent for the owner of a patent, by notice attached to its machine, to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation".

In reaching this result, this Court held that the exclusive right to use a patented device is no greater than the exclusive right to vend, and in prior decisions, such as *Bauer* v. *O'Donnell*, 229 U. S. 1 (1913), the Court had interpreted the exercise once of the right to vend as freeing the article "of every restriction which the vendor may attempt to put upon it" (*Motion Picture Patents* case, 243 U. S. 502, 516).

In a long line of subsequent cases, this Court with unvarying consistency has stricken down attempt after attempt to extend the patent monopoly to control the use of unpatented goods. In each instance some new scheme was devised by the patent holder. In each instance this Court has looked at the effect of the arrangement, and has refused to sanction the control of patent-free goods, despite the new cloak in which each situation was dressed.

In *United Shoe Machinery Corp.* v. *United States*, 258 U. S. 451 (1922), a patent owner leased its patented machines with the restrictions that, among others, the

lessee could use the patented machines only in working upon goods produced by other machines also leased from the patent owner; that the lessee could use with the patented machines only unpatented supplies bought from lessor; that the lessee could use only the patented machines in working on the products of other machines leased by the patent owner; that the lessee would pay a royalty on the products of competing machines as well as on the products of the lessor's machines but that a lower royalty rate would apply if the lessee agreed not to use the lessor's machines on products of competing machines of others. This Court held that these clauses had the effect of preventing use of unpatented competing machines beyond the scope of any patent on the lessor's machines and were illegal, therefore, because in violation of the Clayton Anti-Trust Act.

In *Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27 (1931), the patent owner was in the business of selling unpatented solid carbon dioxide for use in a container, the patent covering the combination of the container and the carbon dioxide. A competing supplier of the unpatented solid carbon dioxide was sued for contributory infringement under the patent. In holding the patent unenforceable this Court stated (283 U. S. at 32):

> "The attempt to limit the licensee to the use of unpatented materials purchased from the licensor is comparable to the attempt of a patentee to fix the price at which the patented article may be resold" (citing cases). "In both classes of cases, courts deny relief against those who disregard the limitations sought to be imposed by the patentee beyond the legitimate scope of its monopoly."

In the case of *International Business Machines Corp.* v. *United States* (1936), 298 U. S. 131, the lease of patented machines by the patent owner on condition that unpatented

cards be used therewith was held illegal, in violation of the Clayton Anti-Trust Act.

In *Leitch Manufacturing Co.* v. *Barber Co., Inc.* (1938), 302 U. S. 458, in the words of this Court

> "The question for decision is whether the owner of a process patent may, by suit for contributory infringement, suppress competition in the sale of unpatented material to be used in practicing the process."

Here the patent owner merely sold the unpatented supplies for practicing the process, but did not practice the process itself, and there was no express agreement requiring the user of the process to purchase its unpatented supplies from the patent owner. However, this Court ruled that under the circumstances there was an implied license requiring the purchase of unpatented materials from the patent owner only, which illegally extended the monopoly of the patent, and this Court denied enforcement of the patent in a suit for contributory infringement against another supplier of the unpatented supplies. This Court said at page 463:

> "By the rule there declared" (in the Carbice case) "**every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited.** It applies whether the patent be for a machine, a product or a process. **It applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly.**" *

In *Ethyl Gasoline Corp.* v. *United States* (1940), 309 U. S. 436, where the patent owner sold a fluid to oil refiners for mixing with gasoline to provide a patented gasoline

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* All emphasis in this Brief has been added, unless otherwise noted.

product, and licensed the refiners to sell only to licensed jobbers, and where the patent owner collected no royalty on the patented gasoline but made its profits only from the sale of the fluid, this Court said, at page 459:

> . . . . . .
>
> "**The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another,** see Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20, 57 L. ed. 107, 33 S. Ct. 9, supra, **than for the exploitation of an unpatented article,** United Shoe Machinery Corp. v. United States, 258 U. S. 451, 66 L. ed. 708, 42 S. Ct. 363, supra; Carbice Corp. v. American Patents Development Corp., 283 U. S. 27, 75 L. ed. 819, 51 S. Ct. 334, supra; Leitch Mfg. Co. v. Barber Co., 302 U. S. 458, 82 L. ed. 371, 58 S. Ct. 288, supra; American Lecithin Co. v. Warfield Co. (C. C. A. 7th) 105 F. (2d) 207, **or for the exploitation or promotion of a business not embraced within the patent.** Interstate Circuit v. United States, supra (306 U. S. 228-230, 83 L. ed. 621, 622, 59 S. Ct. 467)."

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942), the patent owner made and leased patented salt-depositing machines and leased those machines only upon condition that all the unpatented salt tablets used in the machines be purchased from a subsidiary of the patent owner. The patent owner then sued a competing manufacturer of the patented machines for direct patent infringement. This Court refused to enforce the patent on the ground that the attempted control over unpatented materials constituted a misuse of the patent. The Court said at page 494:

> "**It is the adverse effect upon the public interest** of a successful infringement suit in conjunction with the patentee's course of conduct **which disqualifies**

> **him to maintain the suit**, regardless of whether the particular defendant has suffered from the misuse of the patent. . . .
>
> "**It is unnecessary to decide whether respondent has violated the Clayton Act**, for we conclude that **in any event the maintenance of the present suit** to restrain petitioner's manufacture or sale of the alleged infringing machines **is contrary to public policy** and that the district court rightly dismissed the complaint for want of equity."

In another case decided the same day, *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495 (1942), this Court refused to enforce a method patent in a direct infringement suit, where the patent owner, without written license, supplied unpatented materials for use in the patented method. This Court said that it was against public policy to maintain any suit for patent infringement where the sale of unpatented materials for use by the patented method operated as a license to use the patent with that material alone, and thus restrained competition with the defendant in the sale of the unpatented material. This Court went on to say at page 498:

> "The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so or because he cannot avail himself of its benefits within the limits of the grant."

In *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Corp.*, 320 U. S. 680 (1944), this Court refused to hold as a contributory infringer one who made and sold only one unpatented element of a patented combination where the patent owner's exclusive licensee gave the right to sub licensees to use the patent only when the unpatented elements were bought from the licensee.

In *International Salt Co.* v. *United States*, (1947), 332 U. S. 392, the lessor of a patented machine who required his lessees to use unpatented materials sold by the lessor was held to be guilty of violating the anti-trust laws.

In each of these cases there was an attempt to control unpatented materials or products under the guise of a patent. In each case this Court was zealous in preventing such control, either by declaring it to be a violation of the anti-trust laws or by denial of the enforcement of the patent in a suit either for direct or for contributory infringement.

2. *Cases Prohibiting Production or Sale of Competing Unpatented Goods.*

All the foregoing cases involved attempted control of unpatented goods by forcing their purchase from the patent holder or its licensee. The complementary type of control has also been tried, namely, the attempt to prevent the licensee or purchaser from making or using competing unpatented goods.

The *United Shoe Machinery* case, *supra*, in addition to tying in the purchase of unpatented goods, also involved such an attempted control over competing unpatented machinery, which was held to violate the anti-trust laws.

Another such case was *RCA* v. *Lord* (1928), 28 F. (2d) 257, C. C. A. 3, where the Court, following the principles of this Court's decisions, held that a patent owner may not sell patented goods on the condition that the purchaser should not deal in competing goods.

In *National Lockwasher Co.* v. *G. K. Garrett Co.* (1943), 137 F. (2d) 255, C. C. A. 3, the Court held that a patent holder may not exact a promise that its licensee would not produce competing goods, as a condition for a patent license, relying upon this Court's decision in the cases discussed above.

In both cases this Court denied certiorari (287 U. S. 641; 305 U. S. 649).

It should be noted that the Court below in the present case recognized the propriety of decisions such as these (R. 320), but failed to recognize that the present situation falls into the same broad category as those of these prior decisions and impels the same holding.

Therefore this further control over unpatented goods, by prohibiting their sale or production, has been declared to be outside the patent grant and hence illegal.

3. *"Block-Booking".*

In *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131 (1948), a new wrinkle in attempted control outside the monopoly grant was involved. This was "block-booking", described by this Court at page 156 as:

> "(5) Block-Booking.
>
> "Block-booking is the practice of licensing, or offering for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors during a given period. The films are licensed in blocks before they are actually produced. All the defendants, except United Artists, have engaged in the practice. Block-booking prevents competitors from bidding for single features on their individual merits. The District Court held it illegal for that reason and for the reason that it **'adds to the monopoly of a single copyrighted picture that of another copyrighted picture which must be taken and exhibited in order to secure the first.' That enlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials.**

See Ethyl Gasoline Corporation v. United States, 309 U. S. 436, 459; Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, 491; Mercoid Corp. v. Mid-Continent Invest. Co., 320 U. S. 661, 665. The court enjoined defendants from performing or entering into any license in which the right to exhibit one feature is conditioned upon the licensee's taking one or more other features.

We approve that restriction. The copyright law, like the patent statutes, makes reward to the owner a secondary consideration. In Fox Film Corp. v. Doyal, 286 U. S. 123, 127, Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, 'The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.' It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. **Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other.** The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have. As the District Court said, **the result is to add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses.**"

Thus, this form of extension of monopoly was also outlawed.

4. *Any Control of Unpatented Goods by Means of Patents Is a Misuse of Those Patents.*

Thus, in every situation where control of unpatented goods was involved, this Court has ruled consistently that such attempted control was an illegal extension of the patent monopoly beyond its legitimate confines. This was aptly summarized in the case of *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U. S. 637 (1947), where this Court said at page 640:

> "In a long and consistent line of cases the Court has held that **an owner of a patent may not condition a license so as to tie to the use of the patent the use of other materials, processes or devices which lie outside of the monopoly of the patent.** Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U. S. 502; Carbice Corp. v. American Patents Dev. Corp., 283 U. S. 27; Leitch Mfg. Co. v. Barber Co., 302 U. S. 458; Morton Salt Co. v. Suppiger Co., 314 U. S. 488; B. B. Chemical Co. v. Ellis, 314 U. S. 495; Mercoid Corporation v. Mid-Continent Invest. Co., supra; Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U. S. 680. As stated in Morton Salt Co. v. Suppiger Co., supra, p. 492, '• • • the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the patent office and which it is contrary to public policy to grant.' **If such practice were tolerated, ownership of a patent would give the patentee control over unpatented articles which but for the patent he would not possess.** 'If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and im-

pose its own law upon its licensees.' Mercoid Corp. v. Mid-Continent Co., supra, page 667."

No matter what form of control over unpatented goods has been attempted, such control has been held to be a misuse of patents.

As Mr. Chief Justice STONE said in *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241, at 251 (1942):

> "In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant, Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, 62 S. Ct. 402, 86 L. Ed. 363, **the particular form or method by which the monopoly is sought to be extended is immaterial.**"

Furthermore, although the anti-trust laws have been violated in many of the above instances, this is not an essential element in these cases. As this Court has said in the *Transparent-Wrap* case, 329 U. S. at 641:

> "The requirement that a licensee under a patent use an unpatented material or device with the patent might violate the anti-trust laws but for the attempted protection of the patent. Id. **The condemnation of the practice, however, does not depend on such a showing. Though control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned.** Morton Salt Co. v. Suppiger Co., supra. For it is the tendency in that direction which condemns the practice and which, if approved by a court either through enjoining infringement or enforcing the covenant would receive a powerful impetus." Id."

The real vice of each case has rather been the attempted exploitation of the patent to extend its monopoly to control over unpatented goods.

B. Hazeltine's License Agreements Seek Control Over Unpatented Products and Thus Constitute a Misuse of Its Patents.

Hazeltine's activities have been described with uncanny accuracy by this Court in the case of *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637 (1947), at pages 646-7:

> "He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. **Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funnelled into the hands of the original patentee.** See United Shoe Machinery v. LaChapelle, 212 Mass. 467, 99 N. E. 289."

Apt words for what Hazeltine has done! By agreement and purchase it has pooled 770 patents and applications for patent, of at least five different owners, all in the single field of radio, and has entered into 130 license agreements. And with not a single valid patent to justify *any* royalties, it now illegally compels its licensees to pay royalties on unpatented radio sets, and, as shown below, compels the public to buy additional, unwanted sets, to increase its tribute.

Despite its multitude of patents, Hazeltine makes no attempt to seek a return based upon use of the these patents. Rather, it exacts a tribute upon the entire production of its licensees, both patented and unpatented. It *ignores* the use of its patents, so long as it can collect royalties from its licensees, regardless of these patents. Its patents are used as an economic weapon, a threat, for the exaction of tribute, by its scheme of private taxation of the radio industry.

We submit that the collection of royalties under a vast pool of patents for the manufacture and sale of articles using none of the patents, by means of the overpowering threat of disastrous litigation, is a clear misuse of patents which prevents their enforcement.

The requirement for payment of royalties on industry products which are free of patents, such as Hazeltine attempts here, has been condemned by this Court in *United States* v. *U. S. Gypsum*, 333 U. S. 364 (1948), where, in the words of the Court, at page 389:

> "* * * the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; * * * *"*

This Court then said, at page 400:

> "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, **through royalties for the patents drawn from patent-free industry products** and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences. United States v. National Lead Co., 332 U. S. 319, 327; Hartford-Empire Co. v. United States, 323 U. S. 386, 406; Standard Oil Co. v. United States, 283 U. S. 163, 170-74; Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20."

The present situation differs merely in detail from those of the cases discussed above, but is identical in principle. In place of tying to the patent license the use of particular unpatented goods, or a prohibition against making or selling unpatented goods, or the "block-booking" of other licenses, all of which have already been condemned by this Court, Hazeltine ties in and exacts a royalty on unpatented goods, as a condition for granting a license under its pool of patents to practice patented inventions.

The exaction of royalties on unpatented goods is exactly analogous to the requirement that unpatented goods be purchased from the patent holder. In each case there is an attempted expansion of the monopoly to assert control in a sphere where the patent grant itself gives no warrant therefor.

In each case the patent holder is seeking a return which is not, in the words of this Court in *United States v. General Electric Co.*, 272 U. S. 476 at 490, **"normally and reasonably adapted to secure the pecuniary reward for the patentee's monopoly"**. Rather, the patent holder seeks to derive its profits, not from the invention itself, but from unpatented goods.

The Hazeltine agreement is just another tying in provision—tying in a *toll* on *unpatented* goods to the grant of rights under patents. It is just as illegal as any previously stricken down.

To exact royalties on unpatented products is the same in principle as, and differs only in degree from, an absolute prohibition to make such unpatented products, and has the same tendency to restrain competition. Hazeltine has merely added a new dress to the old situation—instead of prohibiting unpatented production, it *taxes* it.

This effect of such a tax on unpatented goods has been recognized by this Court. In *United Shoe Machinery Corp. v. United States, supra*, 258 U. S. 451 at 456-7, this Court said that the exaction of royalty upon goods produced by other than the licensed machines contributed to preventing the licensee from using competing machinery, and thereby restrained trade.

Also, in *United States v. U. S. Gypsum Co., supra*, this Court held that exacting royalties upon unpatented prod-

nets contributed to an unlawful restraint of trade, stating, 333 U. S. at page 385:

> "The license agreements provided that royalties should be paid on the sales of all board sold, patented or unpatented, **a provision which would tend to discourage the production of higher cost unpatented board.**"

Thus it has been recognized that exacting payments based on unpatented goods, in the guise of royalties, can effectively reduce production of unpatented goods, which of course restrains trade and competition, just as an explicit prohibition of production does. The result of both restraints on the public is the same: the public is deprived of the right freely to buy unpatented goods, either by a total cessation of manufacture by the licensee, or by a decrease in manufacture by the licensee, or by an increase in price to cover the tribute exacted from the licensee.

"The power to tax is the power to destroy". Only if sanctioned by the patent laws can such a restraint be tolerated. But here the restraint is upon *unpatented* goods, and hence completely outside any lawful patent monopoly.

The Hazeltine license is just as much "block-booking" as in the *Paramount Pictures* case. The difference between the *Paramount* case and this one is that in the *Paramount* case the exhibitors were required to take a license for and to pay for poor pictures they did not want to use, in order to get a license for good pictures they did want to use, while in this case the licensees are required to pay royalties on unpatented products (on which there can be no license) in order to get a license for patented products. Surely the vice of the *Paramount* case would not be cured by amending the block-booking arrangement to permit the exhibitor to take only good pictures, *but still requiring him*

to pay for the bad pictures *he did not take*. Yet this is exactly what the Hazeltine license requires. Royalties must be paid on all sets whether any patents are used or not.

If the principle of basing royalties on gross production, including unpatented goods, is sanctioned here, a patent holder can control any kind of production, without regard to what the patent covers. Thus Hazeltine could then exact royalty on the entire production of a licensee, whether of radio or television sets or any other goods.

This point may perhaps better be demonstrated by applying it to an apparently extreme and dramatic example. Governor Dewey prosecuted racketeers in New York for enforcing the payment of "royalties" on every suit of clothes dry cleaned in the New York area by means of stink bombs, acid, murder, and other curious devices. Suppose those racketeers had owned the Hazeltine patents—radio patents—and had had each dry cleaning establishment sign Hazeltine's "standard" license, changed only to call for royalties on each suit cleaned, whether the patents were used or not. If in a suit for enforcement of that license against a dry cleaning establishment, this defense of misuse of patents had been set up, it could not seriously be urged that the license is merely a convenient mode of computing the cost of the privilege of using the patents should the licensee desire to make such use. True, the dry cleaners were terrorized into signing the "standard" printed form, but *so were the licensees*, by the overhanging threat of disastrous litigation. True, the patents do not validly apply to dry cleaning, but *neither do they validly apply to the manufacture of radio receivers*. The example chosen may appear to be extreme, but is not. The analogy is perfect.

Obviously, the patent laws were never designed for such a use, and to issue a license agreement of such latitude is a clear misuse of patents.

Hazeltine's Misuse of Patents Bars Enforcement of Its Patent License Agreement.

It follows as a corollary from Hazeltine's misuse of patents that it may not enforce its license agreement with petitioner.

It is now the well established rule of law, expressed by this Court in language incapable of being misunderstood or ignored, that a patent owner who uses his patents to create, acquire or maintain control of commerce outside the scope of the monopoly defined by the patents themselves, has misused his patents rendering them unenforceable. (*Carbice, Leitch, Morton Salt, B. B. Chemical* and both *Mercoid* cases, *supra.*)

By the same token, such misuse of patents renders any license agreement involving these patents unenforceable. (*Sola* v. *Jefferson*, 317 U. S. 173; *Katzinger* v. *Chicago Metallic*, 329 U. S. 394; *MacGregor* v. *Westinghouse*, 329 U. S. 402; *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637, 641.)

This is an action in equity in which an injunction was granted. As this Court said in the *Morton Salt* case, 314 U. S. at 492:

> "It is a principle of general application that courts, and especially courts of equity may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest."

In that case, as well as in the *Carbice, Leitch, B. B. Chemical* and *Mercoid* cases, this Court refused to give relief in equitable actions to enjoin patent infringement, where misuse of patents was shown.

Hazeltine's misuse of its patents therefore bars its enforcement of its license agreements, and is a complete defense in this action.

C. The Opinion Below on This Point.

In the opinion below, the Court of Appeals adopted the statement of the District Court that the gross production royalty was "a convenient mode of operation" (R. 319). In this, the Court below ignored this Court's repeated holdings that mere convenience cannot prevail over illegality. As stated in *B. B. Chemical Co. v. Ellis*, 314 U. S. 495 at 498 (1942):

> "The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so * * *";

In *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U. S. 661 at 666 (1944), this Court said:

> "The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly."

The fallacy in the reasoning of the Court below lay in the failure to appreciate that a royalty of a fixed sum per year, which the Court below upheld as lawful, may represent the actual value of the right to use the patents, in the judgment of the parties concerned, and does not *per se* involve any extension of the patent monopoly to cover unpatented goods. It can be an arrangement "normally and reasonably adopted to secure the pecuniary reward for the patentee's monopoly" (*U. S. v. G. E.*, 272 U. S. 476, 490). In the present situation, however, the royalty exacted has no relation to the value of the right to use the patents. For example, the royalty increases upon increased production of unpatented goods, while the use of the patents does not increase and may decrease, showing complete lack of correlation between royalty and value of the right to use the patents.

When this royalty tax is imposed upon 130 licensees, all in a single industry, a material restraint of trade and impairment in competition results, which is a misuse of patents making them unenforceable here.

POINT II.

(Second and Third Questions Presented)

The owner of a patent, by means thereof, cannot restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, with full consideration paid therefor.

A patent owner, merely by a license notice attached to a device made under a patent, and sold in the ordinary channels of trade, cannot place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device.

Under this heading we assert that a patent owner may not control the uses of a patented device after its sale by the patent owner or his licensee. *A fortiori*, such a patent owner cannot control an *unpatented* device under these circumstances.

The restrictive use notice which Hazeltine requires its licensees to place on sets in its attempt to control such uses is printed on page 3 hereof. This notice is required to be placed on all sets made, whether or not any Hazeltine patent is used in the set.

A. Outline of the Progressive Establishment of the Rule by This Court That the Sale of a Patented Article by the Patent Owner Or by a Licensee Having a Power of Sale, Removes the Article From the Patent Monopoly.

(1) This principle was first expressed and applied so as to give a right of use unlimited in point of time, to one who had purchased a patented article from a person whose patent rights, either as owner or territorial assignee, were expressly limited to the original term of the patent. In those cases, therefore, the holder of the extended term (extensions were then permitted) was held to have no rights with respect to the article so purchased.*

(2) The rule was thereupon extended to cases involving purchases of patented articles from territorial assignees who themselves had no right to make, sell, or use outside the territory to which they were restricted. It was there held (a) that the *purchasers* were not bound under the patent laws by the territorial restrictions of their vendors, and could use the articles elsewhere;*1 (b) that such vendors were not chargeable with infringement for deliberately selling for use in other territory;*2 and (c) that dealers who purchased such patented articles from territorially limited vendors, could sell or use them elsewhere as well, free from the monopoly of the patent.*3 In each of the cases it was held that though all of the parties concerned had full knowledge of the vendor's restricted rights, the purchasers of the patented articles nevertheless took free from all restrictions under the patents.

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* *Wilson* v. *Rousseau*, 4 How. 646; *Simpson* v. *Wilson*, 4 How. 709; *Bloomer* v. *McQuewan*, 14 How. 539; *Bloomer* v. *Millinger*, 1 Wa. 340.

*1 *Adams* v. *Burks*, 17 Wall. 453.

*2 *Hobbie* v. *Jennison*, 149 U. S. 355.

*3 *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659.

(3). Thereupon the attempt by patentees to retain control over patented articles after their sale, by the device of express restrictions in the guise of "license notices" or special agreements with the vendor, intended to enable the patentee to control the resale prices [*1] or the use of those articles by the purchaser,[*2] met with a like fate. In each, as this Court stated in the *Boston Store* case, the reason for the decision was the simple but fundamental ground that, title to the patented article having passed, the monopoly of the patent law cannot "be extended beyond the scope of that law, or, in other words, applied to articles after they have gone beyond its reach" (246 U. S. 8, 26).

(4) In one case [*3] a purchaser of a patented device from a licensee, who used the device for a purpose for which the licensee was not authorized to sell, was held as an infringer. However, in subsequent decisions, this Court reaffirmed the basic proposition that sale of a patented device by a patentee or his licensee exhausts the patentee's monopoly and control.[*4]

B. Analysis of Cases in Which the Rule Was Considered Or Applied.

From the summary just concluded, it is evident that every attempted restriction on a patented device after it has been sold, by means of the patent under which it was made (with but one temporary exception), has been invali-

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[*1] *Bauer* v. *O'Donnell*, 229 U. S. 1; *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8.

[*2] *Motion-Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502, overruling *Henry* v. *A. B. Dick Co.*, 224 U. S. 1.

[*3] *General Talking Pictures Corp.* v. *Western Electric Co.* (1938), 304 U. S. 175, on rehearing 305 U. S. 124.

[*4] *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241 (1942); *United States* v. *Masonite Corp.*, 316 U. S. 265 (1942); *United States* v. *Line Material Co.*, 333 U. S. 287 (1948).

dated by this Court on the ground that a sale exhausts the monopoly of the patent owner as to the particular article involved.

1. *Attempted Restrictions on Time of Use.*

Thus, in *Wilson* v. *Rousseau*, 4 How. 646, and *Simpson* v. *Wilson*, 4 How. 709 (1846) this Court held that one who *purchased* a patented article from a patent owner during the original term of the patent, continued to have the right to use it beyond any limitation in time, though the rights of assignee of the original patent itself were held to have expired with the term, as against the claims of one who had obtained an extension of the patent term under the then existing law. These cases lay the foundation of the rule that the sale of a patented chattel exhausts the patent rights of the seller.

This rule was redefined and again applied six years later in *Bloomer* v. *McQuewan*, 14 How. 539 (1852), in another case dealing with an attempted restriction on the *time of enjoyment*. It was there held that the purchaser of a patented article during the period to which the patent was first limited, was entitled to continue to use it during the extended term, though the right of his vendor—a territorial assignee—in the patent itself, was confined to the original term. This Court thereupon distinguished between the grant of a patent right such as the *license*, on the one hand, and the *sale* of an article made under that right, on the other hand. Chief Justice TANEY, who wrote the prevailing opinion in this and the earlier *Wilson* cases, *supra*, stated this distinction to be "a plain one", and held (p. 549):

> "* * * the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress,

> nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. * * * **And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.**"

2. *Attempted Restrictions on Place of Use.*

The problem was presented anew in three cases between 1873 and 1895, but this time from the viewpoint of attempted restrictions on the *place of use* of patented articles after sale. In each instance this Court held that such restrictions would not be recognized by the patent law once the patented articles had passed by sale into the channels of trade.

Thus, in *Adams* v. *Burks*, 17 Wall. (84 U. S.) 453 (1873), it was held that one who purchased a patented article in the restricted territory of his vendor, acquired the unrestricted right to use it anywhere. This Court held in that case, at page 459:

> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly."

In *Hobbie* v. *Jennison*, 149 U. S. 355 (1893), it was held that a patent assignee for one territory was not an infringer when he sold to a person who, to his knowledge, intended to use the patented articles so purchased, in the territory of another assignee. The plaintiff in the *Hobbie* case sought to escape the implications of the decision in *Adams* v. *Burks* by asserting that in the *Adams* case the vendor of the patented device was unaware of the allegedly

unauthorized use to which the purchaser put the article, but this Court, after stating that there was full knowledge by all parties in both cases, held (*Hobbie* v. *Jennison*, 149 U. S. 355, 363):

> "But we are of opinion that the case of **Adams v. Burks** cannot be so limited; * * * and that neither the actual use of the pipes in Connecticut, or a knowledge on the part of the defendant that they were intended to be used there, can make him liable."

The question then arose in *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659 (1895), whether a *dealer* could be restrained from selling patented articles in his store in Massachusetts, having purchased them from the Michigan assignee with knowledge that the right to make, use and sell them for Massachusetts belonged to another. This Court refused to hold the dealer as an infringer, stating, in effect, that a free citizen may buy anywhere, and, being the owner of what he buys, may sell it anywhere. Reviewing *Adams* v. *Burks* and *Hobbie* v. *Jennison*, this Court held (pp. 666-667):

> "* * * as between the owner of a patent on the one side and a purchaser of an article made under the patent on the other, **the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent** throughout the entire life of the patent, even if the latter should be by law subsequently extended beyond the term existing at the time of the sale.
>
> * * * * * *
>
> "Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture **from one authorized to sell them** becomes possessed of an absolute property in such articles, unrestricted in time or place. * * *

> "The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration."

3. *Attempted Restrictions on Resale Prices and Use.*

The doctrine of the foregoing cases was restated and reapplied in *Bauer* v. *O'Donnell*, 229 U. S. 1 (1913); *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490 (1917); *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8 (1918), and *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917), of which cases the three first named were concerned with the efficacy of attempted *resale price* restrictions and the fourth with attempted limitations on *use*. In each of these cases, the patent owner sought to accomplish, by the device of "license notices" attached to patented articles after their sale, what this Court had refused to sanction in the earlier decisions we have just reviewed. Here, too, this Court, on the same principle which governed its decisions in those earlier cases, invalidated the devices as an attempt to project the patent monopoly beyond its rightful scope.

Thus, in passing upon attempted restrictions as to *resale prices* in *Bauer* v. *O'Donnell*, 229 U. S. 1, this Court held (p. 17):

> "The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this court from the beginning has held that a **patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly** secured by the patent act."

Some years later, this Court summarized its prior decision in *Bauer* v. *O'Donnell* in words strikingly apposite now, in the case of *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U. S. 8, 23:

> "In other words, the decision was that a **patentee could not use and exhaust the right to sell, as to which a monopoly was given him by the patent law, and yet by conditions and stipulations continue that law in effect so as to make it govern things which by his voluntary act were beyond its scope.**"

In the same case, speaking of the rejection of attempted *use* restrictions in the *Motion Picture Patents* case, 243 U. S. 502, this Court continued (p. 25):

> "Reiterating the ruling in the two last cases (referring to **Bauer v. O'Donnell** and **Straus v. Victor Talking Machine Co.**) it was again decided that, as by virtue of the patent law, **one who had sold a patented machine and received the price, and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use, keep under the patent monopoly a subject to which the monopoly no longer applied.**"

In the case of *United States* v. *General Electric Company*, 272 U. S. 476 (1926), this Court said at page 489:

> "**It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights.**"

These principles have been expressly followed in recent cases. *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241 (1942); *United States* v. *Masonite Corp.*, 316 U. S. 265 (1942); *United States* v. *Line Material Co.*, 333 U. S. 287 (1948).

4. *Summary of the Foregoing Cases.*

These decisions show a consistency in ruling which is outstanding in the respect that it has not been departed from or modified, regardless of the guise in which attempted restrictions have been presented.

The fundamental reason underlying all of the decisions appears to be the simple fact that this Court recognized and gave full effect to the fact that when the patented article was sold and the price paid, the article was forever outside the monopoly of the patent, and became, like any ordinary chattel,* owned by the purchaser, to be used or done with as he saw fit, without hindrance by or under the control of the patent owner.

C. Application of the Rule to "License Notice" Cases.

When this Court, in its decisions from *Bloomer* v. *McQuewan*, 14 How. 539 to *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659, construed the exercise of the right to vend under the patent law as granting to the purchaser of the patented article full title without permitting the patent owner to retain the incidents of it, patent owners renewed their battle to fasten control on patented articles after their sale, by the device of attaching "License Notices" to those articles, or by restrictive agreements with the purchasers. However, that method fared equally badly, for this Court with unfailing regularity brushed aside "the guise of license or otherwise" (*Boston Store* v. *American Grapho-*

* *Dr. Miles Medical Co.* v. *Park & Sons*, 220 U. S. 373, citing with approval *Park & Sons* v. *Hartman*, 153 Fed. 24, 39 in which it was held that "a covenant which may be valid and run with land will not run with or attach itself to a mere chattel". See, to the same effect, *Taddy* v. *Sterious*, L. R. (1904), 1 Ch. 354, 358; and *Barker* v. *Stickney* (1919), 1 K. B. 121, 132.

phone Co., 246 U. S. 8, 24) and refused to hold such purchasers as infringers.

Some time before the "license notice" issue was presented to this Court in patent cases, it had decided against the practice in the closely analogous copyright cases of *Bobbs-Merrill* v. *Straus*, 210 U. S. 339 (1908) and *Scribners* v. *Straus*, 210 U. S. 352 (1908), in which resale price restrictions by "notice" on copyrighted books, after their sale, were held void. The use of such "license notices" on sold patented articles was termed "dangerous doctrine" by a former Assistant Commissioner of Patents,* who observed and warned against the material growth of such practice, and its occasional support in the lower Federal Courts before 1912. When the question did come before this Court the entire system of "license notice" restrictions sought to be attached to patented articles upon their sale, was finally repudiated in its entirety.

1. *Attempted "License Notice" Restrictions on Resale Prices.*

In *Bauer* v. *O'Donnell*, 229 U. S. 1, the first of the series of patent cases in which the issue was raised, a retail drug store proprietor was sued for patent infringement for having disregarded a notice on original Sanatogen packages he purchased, purporting to license their "sale or use at a price not less than one dollar". The notice also recited the purchase as constituting an acceptance of the condition, with right of reverter in the event of violation.

The case came up on certificate from the Court of Appeals of the District of Columbia and "the question presented restricted the case to determining whether the right to limit the price existed because within the monopoly

* Walter H. Chamberlain in 6 Illinois Law Review 357 (January, 1912).

granted by the patent law" (*Boston Store v. American Graphophone*, 246 U. S. 8, 22-23, interpreting the *Bauer* decision).

In deciding that no right under the patent law was involved, and that the purchaser was free to use the patented article at will, Mr. Justice Day, writing for this Court, said (229 U. S. 1, 13):

> "The sale of a patented article is not essentially different from the sale of a book. In each case to vend is to part with the thing for a consideration."

In reaching the conclusion that once the right to vend, conferred by the patent law, has been exercised, "the added restriction is beyond the protection and purpose of the act" (229 U. S. 1, 17), this Court expressly predicated its decision *inter alia*, on *Bloomer* v. *McQuewan*,[*1] *Adams* v. *Burks*,[*2] and *Keeler* v. *Standard Folding Bed Co.*,[*3] thus bringing its decision precisely in line with the doctrine *fundamental* to all those cases, that once title to a patented article has passed to a purchaser, and the right to vend thus exhausted with respect thereto, the article has passed "beyond the limits of the monopoly secured by the patent act" (*Bauer* v. *O'Donnell*, 229 U. S. 17).

In *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490 (1917), this Court was next called upon to decide the legal effect of a "License Notice" affixed to a patented machine. The Victor Company manufactured phonographs and distributed them under "license contracts", reserving title to the machine until expiration of its patent and compliance with certain conditions appearing on a "License Notice". This license authorized dealers to convey a license to use

[*1] 14 How. 539.
[*2] 84 U. S. (17 Wall.) 453.
[*3] 157 U. S. 659.

the machine upon a minimum payment of $200. The defendant bought a quantity of the machines at less than the fixed price stated in the "License Notice". The Victor Company sought to enjoin this alleged infringement by preventing the defendant from selling them, presumably at lower prices.

This Court, in dismissing the bill for infringement, held the "Notice" invalid, and the full purport of its holding was later summarized in the following language in *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U. S. 8, 24:

> "Basing its action upon the substance of things, and disregarding mere forms of expression as to license, etc., the court held that the contract was obviously * * * not different from the one which had come under review in Bauer v. O'Donnell. Thus brushing away disguises resulting from forms of expression in the contract, and considering it in the light of the patent law, it was held that **the attempt to regulate the future price or the future marketing of the patented article was not within the monopoly granted by the patent law** * * *."

It is interesting to note that this Court, undeceived by the patentee's use of the word "license" to cloak what was really a sale, found that the facts involved an attempted price restriction on patented articles "after they have passed into the possession of dealers and of the public", and held:

> "We conclude that it falls within the principle of Adams v. Burks, 17 Wall. 453, 456 and of Bauer v. O'Donnell, 229 U. S. 1."

Adams v. Burks, on the page indicated in the *Straus* opinion, holds that upon sale "the article, in the language of the Court, passes without the limit of the monopoly"

("the language of the Court" refers to *Bloomer* v. *McQuewan*, 14 How. 539). That, also, is the principle restated in *Bauer* v. *O'Donnell*. Price limitation was no issue in *Adams* v. *Burks*, or *Bloomer* v. *McQuewan*. The only principle common to the *Adams*, *Bloomer*, *Bauer*, and *Straus* cases is that *a sale, whether with or without a license notice*, takes the patented article out of the patent monopoly.

Thereafter, in *Boston Store of Chicago* v. *American Graphophone*, 246 U. S. 8, the "license notice" method which had failed of recognition in the *Bauer* and *Straus* v. *Victor* cases, was supplanted by written contracts between marketing agents of the patentee and purchasers of the patented articles whose resale prices were sought to be controlled thereby.

The District Court in that case conceded that a patentee

> "cannot make a notice attached to the article discharge the function of a 'covenant running with the land'" (225 Fed. 785, 787).

but was misled by the contract device, and sustained the bill alleging patent infringement because of a violation of that agreement.

This Court, however, on a certificate from the Circuit Court of Appeals for the Seventh Circuit in that case, inquiring whether "the recited facts disclose that some right or privilege granted by the patent laws has been violated" answered in the negative and dismissed the bill. After reviewing its prior decisions invalidating restrictions sought to be imposed under the patent law on patented articles after their sale, this Court held (pp. 25, 26):

> "Thus concluding, it becomes, we think unnecessary to do more than say that we are of opinion that the attempt in argument to distinguish the cases by the assumption that they rested upon a mere question

> of the form of notice on the patented article, or the right to contract solely by reference to such notice, is devoid of merit, since the argument disregards the fundamental ground upon which, as we have seen, the decided cases must rest."

That "fundamental ground" of which this Court spoke, was that the monopoly of the patent cannot (p. 26):

> "be extended beyond the scope of that law, or, in other words, applied to articles after they have gone beyond its reach."

Indeed, so firmly did this Court deem that rule to be established that it expressly rejected any further attempts "judicially to correct doctrines which by reiterated decisions have become conclusively fixed" (p. 26).

2. *Attempted "License Notice" Restrictions on Use.*

The doctrines of the foregoing cases were again presented to this Court, but from a different aspect, in *Henry v. A. B. Dick Co.*, 224 U. S. 1, and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 302. In those cases renewed attempts were made by patent owners to control patented articles in the hands of purchasers, this time by "license notices" attached to the articles and purporting to restrict their *use*.

As indicated above, in the *Dick* case, by a four to three decision later expressly overruled, such a notice, requiring the patentee's unpatented supplies to be used with the patented device, was held effective and its violation recognized as an infringement of the patent.

The *Dick* case was expressly overruled in the *Motion Picture Patents* case. There this Court had presented to it two closely analogous questions—(1) whether a patentee who licenses the manufacture and sale of the patented de-

vice can, by a mere notice attached to the article, limit the purchaser from such licensee to films which were not part of the patented machines, and (2) whether the patentee, by a mere notice so attached, can reserve conditions to be fixed in the future.

Both questions were answered in the negative by this Court. With respect to the "License Notice", it held (p. 509):

> **"The statutes relating to patents do not provide for any such notice and it can derive no aid from them."**

This Court thereupon proceeded to hold that (p. 516):

> "* * * we are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent, and that **it is not competent for the owner of a patent, by notice attached to its machine, to, in effect, extend the scope of its patent monopoly by restricting the use of it** to materials necessary in its operation, but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country **subject to conditions as to use** or royalty to be paid, to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice, and the cost, inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it."

(To the same effect, see the later case of *Carbice Corp.* v. *American Patents Development Corp.* (1931), 283 U. S. 27.)

Of course, there is no distinction in principle between attempting to restrict the *materials to be used* by an attached "License Notice", and attempting to restrict the *use of the device itself*, as is done by Hazeltine. Both of the attempted restrictions consist of nothing more or less

than attempts on the part of the patent owner to "extend the scope of its patent monopoly" in a manner neither contemplated nor permitted by the patent statutes.

The only distinction that exists between the decisions of this Court in the *Bauer, Straus, Boston Store* and *Motion Picture Patent* cases, on the one hand, and the case at bar, is in the character of the restrictions sought to be effected by the "License Notice" attached to the goods sold, a distinction without a difference. Under these cases no valid restriction on the use of a patented article purchased from the patentee or his licensee, and the full price paid therefor, can be effected by a mere "License Notice" attached to that article.

4. The *General Talking Pictures* Case.

In the case of *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175 (1938), the Supreme Court granted certiorari to pass on three questions. The first two of these questions were again considered by the Court on rehearing which is reported at 305 U. S. 124. The two questions, as quoted from 305 U. S. 125, are identical, respectively, with the second and third questions here.

In the *General Talking Pictures* case the patent owner sued, as an infringer, the purchaser of a patented device from a licensee having a license limited to sales for non-commercial uses, where the purchaser knew that the licensee had no license to sell for the commercial uses to which the purchaser intended to put the device, and where the licensee knew that the purchaser intended to put the device to commercial use.

The majority of the Court by a vote of 5 to 2 on the rehearing decided that the two questions presented were not in the case, because of the "controlling facts" (304 U. S.

at p. 180) of knowledge on the part of the licensee and purchaser of the limitations in the license, and expressly reserved decision on both questions.

This must be distinguished from the present case, where these questions are squarely raised as elements in Hazeltine's misuse of patents.

The majority *General Talking Pictures* opinion, written by Mr. Justice BRANDEIS, speaking for himself and for Messrs. Justices HUGHES, MCREYNOLDS, BUTLER and STONE, failed to distinguish between a license limited to certain uses *by the licensee*—such as a manufacturer licensed to use a patented machine in canning beans—and a license imposing restrictions on the use of a patented device *after the device itself is sold* by a patent owner or his licensee, such as a radio sold across the counter in a retail store.

The vigorous dissenting opinion of Mr. Justice BLACK, in which Mr. Justice REED concurred, not only makes this clear, but expressly held that both questions presented, on which the majority reserved decision, should have been answered in the negative.

In the present case the radio sets made by Hazeltine licensees are sold to the public across the counters of retail stores. The purchasers therefore do not have notice of any license restrictions unless the restrictive use license notices are themselves effective to provide such notice. If they are effective, they provide a device for effecting the control by the patent owner of patented devices after their sale, which this Court has refused to permit for over 100 years.

It should be noted that the present Hazeltine agreements go far beyond the license notice considered by this Court in the *General Talking Pictures* case, since the notice here is required to be put upon *all licensed apparatus*, which in-

cludes not only patented apparatus, *but also completely patent-free apparatus.* In this respect, in addition, the present case is fully distinguishable from the *General Talking Pictures* case.

However, if the Court regards the cases as indistinguishable, we submit that the *General Talking Pictures* case has been overruled by subsequent decisions.

b. Cases Since the *General Talking Pictures* Case.

Any thought that the *General Talking Pictures* case has established any departure from traditional doctrine on remote control of use of apparatus once sold by a patentee has been dispelled by the cases decided since then.

In *United States* v. *Univis Lens Co.*, 316 U. S. 241 (1942), this Court again decided that sale of a patented or unpatented product by the licensee of the patent owner exhausted the patent monopoly. The Court said (at p. 250):

> "The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying the invention. His monopoly remains so long as he retains the ownership of the patented article. **But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article.** Bloomer v. McQuewan, 14 How. (U. S.) 539, 549, 550, 14 L. ed. 532, 537; Adams v. Burke, 17 Wall. (U. S.) 453, 21 L. ed. 700; Hobbie v. Jennison, 149 U. S. 355, 37 L. ed. 766, 13 S. Ct. 879. Hence the patentee cannot control the re-sale price of patented articles which he has sold, either by resort to an infringement suit, or, consistently with the Sherman Act (unless the Miller-Tydings Act applies), by stipulating for price maintenance by his vendees. Bauer v. O'Donnell, 229 U. S. 1, 57 L. ed. 1041, 33 S. Ct. 616, 50 L. R. A. (N. S.) 1185, Ann. Cas. 1915A 150; Boston Store v.

American Graphophone Co., 246 U. S. 8, 62 L. ed. 551, 38 S. Ct. 257, Ann. Cas. 1918C 447; Straus v. Victor Talking Mach. Co., 243 U. S. 490, 61 L. ed. 866, 37 S. Ct. 412, L. R. A. 1917E 1196, Ann. Cas. 1918A 955; Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 456, 457, 84 L. ed. 852, 861, 862, 60 S. Ct. 618, and cases cited.

. . . . . .

"In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant, Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, ante, 363, 62 S. Ct. 402, the particular form or method by which the monopoly is sought to be extended is immaterial.

"**The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers.** Whether the licensee sells the patented article in its completed form **or sells it before completion** for the purpose of enabling the buyer to finish and sell it, he has equally parted with the article, and made it the vehicle for transferring to the buyer ownership of the invention with respect to that article. To that extent **he has parted with his patent monopoly in either case**, and has received in the purchase price every benefit of that monopoly which the patent law secures to him. If he were permitted to control the price at which it could be sold by others he would extend his monopoly quite as much in the one case as in the other, and he would extend it beyond the fair meaning of the patent statutes and the construction which has hitherto been given to them."

The specific holding was thus that, after sale, the price of uncompleted lens blanks (which were *unpatented*) or of completed and patented lens blanks, could not be fixed by the patentee or its licensee. It is clear that exactly the

same reasoning applies to *use* after sale. No distinction in principle can be drawn between these types of after-sale control, and the authorities relied upon in this *Univis* case impel a negative answer to the second and third questions in this case.

The concurrently decided case of *United States* v. *Masonite Corp.*, 316 U. S. 265 (1942), is to the same effect. That case reaffirmed the old line of cases from *Bloomer* v. *McQuewan* on, and held that sale by the patentee to a *del credere* agent "exhausts his limited privilege" (p. 279).

These conclusions are strongly reenforced by this Court's recent opinions in *United States* v. *Line Material Co.*, 333 U. S. 287 (1948). The specific question decided was that price fixing under pooled patents is illegal even if the patents are valid.

Three opinions were written in the *Line Material* case, the majority opinion, a separate concurring opinion by four justices, and a dissenting opinion by three. *All three opinions expressly reaffirm the old cases, and all cite, with approval the Motion Picture Patents case.*

The minority opinion, by Mr. Justice Burton, says (333 U. S. at 342, footnote 16):

> "The instant case also is to be distinguished sharply from those in which the parties to a license have sought to fix prices for the resale by the license(e) of patented products previously sold to the licensee by the patentee or others. United States v. Univis Lens Co., 316 U. S. 241, 252; Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 452, 456-457; **Motion Picture Patents Co. v. Universal Film Mfg. Co.**, 243 U. S. 502, 516; Straus v. Victor Talking Machine Co., 243 U. S. 490, 500-501; Bauer v. O'Donnell, 229 U. S. 1, 16-17. See also, Standard Oil Co. v. United States, 283 U. S. 163; United Shoe

Mach. Co. v. United States, 258 U. S. 451, 463-464; Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20, 48049; Adams v. Burks, 17 Wall. 453, 455-456."

It is significant that the dissenting minority, which favored price fixing, cited the *Motion Picture Patents* case as one from which the *Line Material* case "is to be distinguished sharply", although it was listed with the other cases similarly to be "distinguished sharply" which were stated to be cases in which the control of resale prices was involved. The *Motion Picture Patents* case, as discussed above, involved restrictions on *use* by the purchaser of the patented device, sought to be effected by a restrictive-use notice placed on the device, exactly as Hazeltine is now doing. Control of the use of a device in the hands of a purchaser from the patentee or his licensee was condemned in the *Motion Picture Patents* case, and marking notices held to be legally ineffective to control such use as shown above. This was decided by the analogy to the cases on control of resale price.

The Supreme Court in the *Line Materials* case, by relying on or distinguishing from the *Motion Picture Patents* case was therefore unanimous in reaffirming the right of one who purchases a patented device from the patentee or his licensee, to use it for any purpose without further control by the patentee, and in condemning patent marking notices seeking to effect such control as an attempt illegally to extend the monopoly of the patent.

POINT III.

(Fourth Question Presented)

It is a misuse of patents rendering them unenforceable for the administrator of a pool of 570 patents and 200 patent applications to require its licensees to place restrictive use notices on millions of radio sets sold to the public across the counters of retail stores.

In the present case we go one step farther than the prior cases and, on the basis that the correct answer to both the second and third questions is in the negative, assert that the use of such notices, *especially on completely unpatented goods*, constitutes a misuse of patents, making the patents unenforceable. (For notice, see p. 3 above.)

This additional step makes it easier to answer the two questions on which the Court reserved decision in the *General Talking Pictures* case. Tens of millions of radio receivers have been sold and are in use in the United States. Fifteen million were sold in 1946 alone (R. 261). Probably more than one hundred million are now in use. Millions of electric phonographs are in use. Three million television sets were in use by the end of 1949. The large majority of these sets bear a license notice purporting to restrict the uses to which they may be put.

One proposition is not open to argument. That is, that Hazeltine would not have had its licensees place such restrictive notices on one hundred million sets unless it was a profitable thing to do. We therefore accept it as a fact, proved conclusively and beyond question, that the use of

these notices has resulted in the sale of unnecessary and unwanted sets. If one wants to give a concert of his favorite records at his Church or Lodge or to operate a phonograph or a radio or television set in his restaurant he must, if these notices are legal, go out and buy an extra "commercial" phonograph or an extra "commercial" radio or an extra "commercial" television set for these purposes. Of course Hazeltine collects further royalty on these "commercial" devices, under its "commercial" license.

How many thousands or millions of unneeded and unwanted sets have been bought we do not know, but we do know that the public has for twenty years been effectively and illegally restrained from the lawful use of the apparatus it has bought and paid for.

If one hundred million radios have been sold by Hazeltine's licensees to date, and if each marking notice plate cost one cent, both of which are reasonable estimates, then it has cost Hazeltine's licensees $1,000,000.00 so far just to place these restrictive license notices on the sets sold. This expense would not have been incurred and required by Hazeltine unless it resulted in a profit through the sale of unwanted and unneeded sets.

The millions of dollars which the public has thus illegally been forced to pay for the use of apparatus which had passed beyond the limits of a patent monopoly is, we submit, conclusive proof that such restrictive notices are illegal and unenforceable, and that their use constitutes a misuse of patents.

The vice of the Hazeltine license does not end merely with forcing the public to buy unnecessary sets by having

its licensees apply the restrictive use notice to sets which are actually *covered by Hazeltine patents*. The Hazeltine license goes far beyond that, and far beyond any of the prior cases discussed above, in the following extremely important particular: whereas in each of these cases the attempted remote control of use which was stricken down by the Court related to the use of a *patented* device, so that there was at least a colorable attempt to justify the attempted restriction of use on the basis of the patent grant, in the present case the attempted restriction on use applies not only to patented products, but also to *completely unpatented* products. Thus Hazeltine's restrictive use notice *seeks to restrict the uses to which the purchasing public may put unpatented* sets.

This Court has consistently refused to sanction the control of *unpatented* products under the guise of the patent monopoly. The present situation involves merely a slightly different type of control of the unpatented goods from those already declared illegal, namely, the restriction of the use of *unpatented* goods *to certain fields* rather than the restriction of their use *to certain patented machines or processes*. This is a distinction without a difference, a mere matter of degree. The net result is the same. The patents are being used to attempt to control unpatented goods, which is a kind of control not granted by the patent itself.

Not only is the restriction completely illegal and invalid as to the public, but the requirement that, as a condition to a license under Hazeltine's patents, the licensee must participate in such a scheme of illegal control, is a clear case of using the weight of Hazeltine's 570 pooled patents in an attempt to coerce the public into buying unwanted and unneeded further sets.

Hazeltine's "standard" license, in this respect also, thus constitutes a clear attempt to extend the monopoly of its patents to control unpatented products and is a definite misuse of patents, which, as shown above, renders the Hazeltine license agreement unenforceable against petitioner.

A. The Opinion Below on Points II and III.

The opinion below on these points was based entirely upon this Court's decision in the *General Talking Pictures* case. The Court below stated (R. 318) " * * * we decline to speculate on whether the case would now be followed by the Supreme Court. If the case is to be overruled, that must be done by the Supreme Court. Meanwhile it is our duty to follow it."

The Court of Appeals failed to recognize two major points of distinction with respect to this Court's decision in the *General Talking Pictures* case.

1. The questions presented are exactly those presented to this Court in that case but on which decision was specifically reserved. Therefore, this Court did not rule upon the questions involved as the Court below appeared to believe.

2. This case is sharply distinguishable from the *General Talking Pictures* case, because here the license notice required by the agreement had to be applied *to the entire production of* radio sets, *whether patented or unpatented*. Therefore, the present agreement requires such a notice to be placed upon *unpatented* sets. As discussed above, such a requirement goes far beyond any powers granted under the patents, and we assert it constitutes a misuse of Hazeltine's patents, rendering them unenforceable here.

POINT IV.

(Fifth Question Presented)

A licensee sued for royalties under a pool of 570 patents may challenge the validity of the patents he is charged with using in defense of the suit.

We assert that the misuses shown above permit Automatic Radio to challenge the validity of the patents it is charged with using.

It is now well settled that a licensee may challenge patent validity when the patent license agreement would be illegal but for valid patents; that is, when the patents are being misused (*Sola Electric Co.* v. *Jefferson Electric Co.* (1942), 317 U. S. 173; *Edw. Katzinger Co.* v. *Chicago Metallic Mfg. Co.* (1947); 329 U. S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.* (1947), 329 U. S. 402).

Certainly, Hazeltine's forcing payment of royalties based on the entire production of its 130 licensees in the single field of radio, amounting to millions of dollars a year, would be even more of a misuse if all of its patents were invalid; it would constitute a sizable restraint of trade by exaction of tribute from a large portion of the industry, without any semblance of right whatever. The same is true of the restrictive use notice requirement. Automatic should therefore be entitled to attack the validity of the Hazeltine patents asserted against it in order to determine whether such restraint exists.

We assert further the right to challenge validity no matter what use is being made of the patents.

The fact that a patent holder controls and operates a vast pool of patents cannot and does not give it any greater rights than does the sum of the individual patents. But

the economic power represented by such a pool is readily capable of abuse to gain advantages outside the patent monopoly. For this reason, the Courts scrutinize carefully the operations of such a pool, and circumscribe them with safeguards for the public. For example, while an individual patentee may, under a valid patent, fix resale prices by his licensee (*U. S.* v. *General Electric* (1926), 272 U. S. 476), a patent pool operator may not, regardless of the validity of its patents (*U. S.* v. *Line Material Co.* (1948), 333 U. S. 289).

In *Pope* v. *Gormully*, 144 U. S. 224 (1892) it was held that a license agreement strikingly similar to the Hazeltine license here in suit, in which the licensee agreed not to contest the validity of 65 patents, was void and unenforceable because it was contrary to public policy. The Court said:

> "The real question is whether the defendant can estop himself from disputing patents which may be wholly void, or to which the plaintiff may have no shadow of title."

In answering this question, the Court said:

> **"It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly;** and it is a serious question whether public policy permits a man to barter away beforehand his right to defend unjust actions or classes of actions, though, in an individual case, he may doubtless assent that a judgment be rendered against him, even without notice."

The Court further said:

> "With regard to all such matters of public policy, it would seem that no man can bind himself by estoppel not to assert a right which the law gives him on reasons of public policy."

And in finally answering the question, the Court said:

> "* * * we are of the opinion that a contract not to set up any defense whatever to any suit that may be begun upon fifty different causes of action is in violation of public policy. See as pertinent to this question, Home Ins. Co. v. Morse, 87 U. S. 20 Wall. 445 (22:365); Doyle v. Continental Ins. Co., 94 U. S. 535 (24:148); Barron v. Burnside, 121 U. S. 186 (30:915)."

Therefore, if this license agreement is interpreted as creating an estoppel against Automatic Radio which prevents it from challenging the validity of any of Hazeltine's 570 patents, and specifically of the four patents Hazeltine charges it uses, the *license itself is necessarily void* under this authority and may not be enforced. It necessarily follows that Automatic Radio *may* challenge the validity of the patents, *or* should have judgment in its favor because the contract is void.

Indeed, in view of the strong public policy against the unauthorized extension of patent control beyond the limits fixed by the patent, it is believed that any licensee under a patent pool may now challenge validity regardless of any question of misuse. In the case of *Katzinger* v. *Chicago Metallic*, 329 U. S. 394, the Court said at page 400:

> "In Scott Paper Co. v. Marcalus Mfg. Co., 326 U. S. 249, 90 L. Ed. 47, 66 S. Ct. 101, it was held that even an assignor who had sold a patent issued to itself was free to challenge the validity of the patent and thereby defeat an action for infringement by showing that the invention had been described in an expired patent. **In thus emphasizing the necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid**, the Court was but stating an often expressed

> policy that 'It is the public interest which is dominant in the patent system', Mercoid Corp. v. Mid-Continent Invest. Co., 320 U. S. 661, 665, 88 L. Ed. 376, 380, 64 S. Ct. 268 (60 U. S. P. Q. 21, 24) and that **the right to challenge 'is not only a private right to the individual, but is founded on public policy which is promoted by his making the defense, and contravened by his refusal to make it.'** Pope Mfg. v. Gormully, 144 U. S. 224, 235, 36 L. Ed. 414, 418, 12 S. Ct. 632."

This is reenforced by this Court's statement in the *U. S. Gypsum* case, 333 U. S. 364, at 387-8:

> "In an antitrust suit instituted by a licensee against his licensor **we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed, because of the public interest in free competition,** even though the licensee has agreed in his license not to do so. Sola Electric Co. v. Jefferson Electric Co., 317 U. S. 173, 87 L. Ed. 165, 63 S. Ct. 172; Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394, 91 L. Ed. 374, 67 S. Ct. 416, 424; MacGregor v. Westinghouse Electric & Mfg. Co., 329 U. S. 402, 91 L. Ed. 380, 67 S. Ct. 421, 424."

Public policy certainly requires judicial scrutiny of ten patents which have been held to be worthless, plus 560 unadjudicated pooled patents admittedly of even less value, if that is possible, upon which the public is paying millions of dollars a year in royalties and on which patents, and their successors, the public may have to continue paying in perpetuity unless challenged in this case.

The citation of *Pope v. Gormully* in *Scott Paper* v. *Marcalus* and again in *Katzinger* v. *Chicago Metallic* appears to be of great significance. This reaffirmation of the doctrine of *Pope* v. *Gormully*, 144 U. S. 224 (1892) in the context in

which it was cited in the quotation above, seems to leave no doubt of Automatic Radio's right to challenge the validity of Hazeltine's four patents asserted in this action.

Conclusion.

Accordingly, the First, Fourth and Fifth questions presented should be answered in the affirmative, and the Second and Third questions presented should be answered in the negative, and the decision below reversed because of Hazeltine's misuse of patents.

Respectfully submitted,

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